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NATIONAL INTELLIGENCE DAILY CABLE

Monday October 4, 1976

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State Department review completed

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NATIONAL SECURITY INFORMATION
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National Intelligence Daily Cable for Monday October 4, 1976.

The NID Cable is for the purpose of informing senior US officials.

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WEST GERMANY: Election

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[] West German Chancellor Helmut Schmidt has claimed victory following yesterday's national parliamentary election, and it appears that his Social Democrats and Foreign Minister Genscher's Free Democrats intend to renew their coalition government in Bonn.

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[] Christian Democratic leader Helmut Kohl, however, has not yet conceded defeat and apparently still hopes to entice the Free Democrats to join him in a government.

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[] Unofficial results of yesterday's balloting indicate that the Social Democrats and Free Democrats together polled about 50.5 percent of the vote and will receive 252 votes in the Bundestag--a majority of only eight seats. Compared with the 1972 election, the Social Democrats lost considerable ground, and the Free Democrats also received fewer votes.

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[] The Christian Democrats--as expected--again became the plurality party in West Germany. They and their allies, the Christian Social Union, won 48.6 percent of the vote and 244 Bundestag seats. The Christian Democratic showing was the second best any party has ever made in a national election.

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[] Schmidt announced yesterday that he and Genscher and other leaders from the coalition parties will meet today and Tuesday to discuss forming a new government.

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[] Genscher yesterday publicly repeated the pledge made last May that the Free Democrats would renew the coalition with Schmidt's party. Economics Minister Friderichs, a Free Democratic leader who is considered by many political observers to favor a coalition with the Christian Democrats, also stated publicly that the Free Democrats have decided to stay with the Social Democrats.

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[] Kohl, buoyed by his party's showing at the polls, has stated publicly that he expects the West German president to nominate him as Chancellor. Although publicly rebuffed by Genscher, Kohl said that he will formally propose coalition talks with the Free Democrats. Kohl argues that an eight-to-ten-seat majority is not enough to guarantee a stable government.

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25X1 [] How stable a Social Democratic - Free Democratic coalition government will be and whether it will last for a full four-year term is in fact in doubt.

25X1 [] In 1969 the Social Democrats under Willy Brandt and the Free Democrats formed a government with only a 12-seat majority. Over the course of three years six Free Democrats "defected" from that party's parliamentary faction, ultimately leading to an early election in 1972.

25X1 [] The Free Democrats now are a more homogenous party than in the past, and the major foreign policy issues that led to the defections have been settled. Maintaining the iron-clad discipline that will be necessary to hold the coalition together for the next four years, however, will probably prove a formidable task for the leaders of both the Social Democrats and the Free Democrats.

25X1 [] Enacting legislation may also prove more difficult than it has during the past four years. Schmidt apparently was alluding to possible difficulties when he stated yesterday that he hoped the opposition will not embark on a course of "confrontation" in the Bundestag or a course of "obstruction" in the upper house of parliament, which the opposition controls. []

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LEBANON: Situation Report

25X1 [] Christian forces have temporarily halted their advance on Alayh, one of the last Palestinian-leftist strongholds on the Beirut-Damascus highway. Since Friday night they have limited the attack to occasional shelling.

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[] In addition, several inhabitants of the town asked that the offensive cease while they try to persuade the Palestinians to withdraw peacefully.

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[] Such a voluntary withdrawal is unlikely. Alayh is of symbolic and strategic importance to the Palestinians and the

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leftists. Although the Palestinians are reported to have taken heavy casualties during the assault on Friday [REDACTED]

[REDACTED] their defenses appear adequate to withstand an attack by Christian forces fighting without the Syrians.

[REDACTED] Syrian forces have limited their participation to artillery attacks on Alayh and neighboring Bhamdun.

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[REDACTED] Leftist leader Kamal Jumblatt indirectly endorsed the Egyptian initiative in a public statement Sunday as he was leaving Cairo for Paris.

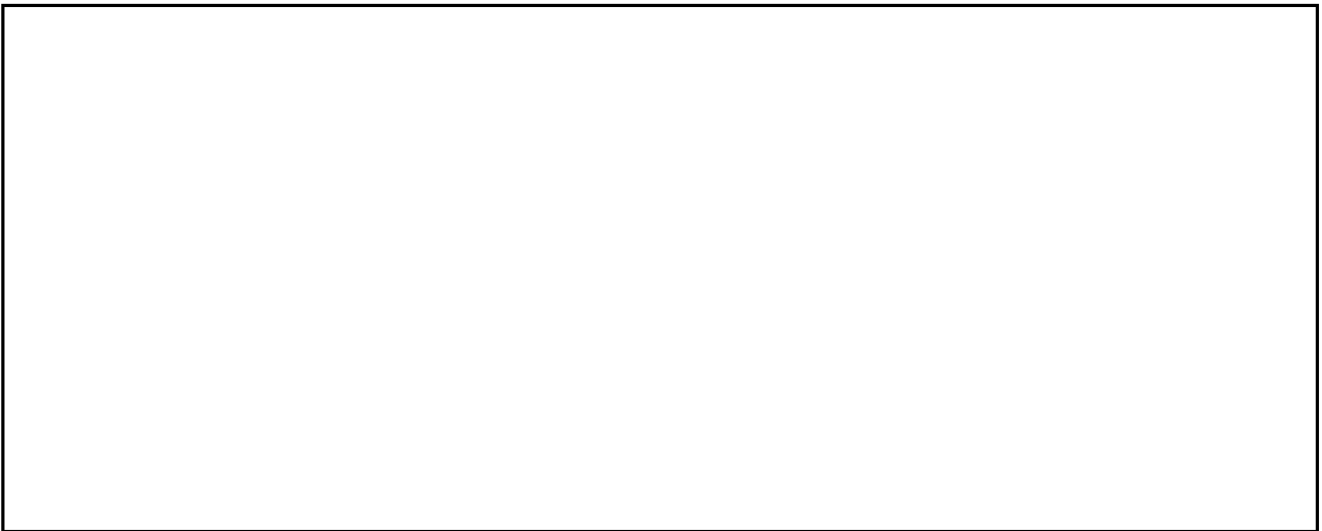
[REDACTED] Christian leaders have reportedly also been considering asking for French troops, but it is highly unlikely that any Christian party would be willing to have them replace the Syrians. Phalangist leader Jumayyil said in an interview on Sunday that he would welcome a French-Arab peace-keeping force provided it remained neutral. Jumayyil, however, also endorsed the continued presence of Syrian forces.

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[] Fahmi did not, according to a French Foreign Ministry official, broach the subject--first raised several months ago and revived this weekend by Jumblatt--of French sponsorship of a roundtable peace conference of all Lebanese parties. Paris might be interested in such diplomatic involvement but does not expect that this will be possible soon.

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MEXICO: Economic Measures

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[] Mexico is taking steps to stabilize the economy in the wake of the recent 37-percent drop in the value of the peso. The government has imposed harsh new price controls, initiated curbs on government spending, and granted relatively restrained wage increases.

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[] These moves are expected to have a favorable psychological impact on the public, which had been losing confidence in the government's ability to control the effects of the peso float. They will also help to ensure that the economy does not lose the stimulus to exports normally expected from currency devaluation.

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[] New official price levels decreed by President Echeverria mean that most prices, which had skyrocketed following

the devaluation, will be rolled back. The government has limited the price increase for most basic consumer goods to 10 percent and has greatly expanded the list of regulated goods and services.

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[] Nearly all basic foodstuffs, clothing, chemicals, basic raw materials, construction materials, household appliances, automobiles, and services such as auto repairs and hospital care will now be controlled. To avoid discouraging tourism, hotel rates cannot be increased by more than 20 percent and restaurant prices 15 percent. Prices for petroleum products, natural gas, and refined sugar--all produced from domestic materials--remain frozen.

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[] The government intends to enforce its price controls strictly. Violators will be subject to three-month jail terms and \$2,500 fines. The government's inspection staff probably will concentrate on the larger manufacturing and retail concerns. Companies able to prove their costs have gone up more than 10 percent will be permitted to petition for additional price increases.

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[] Prices ultimately may rise 15 to 20 percent as a consequence of the devaluation, but this increase will still leave a substantial price benefit to exporters.

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[] Wages for government employees will be increased 21 to 23 percent, reportedly to cover the rise in the cost of living between January and August as well as to compensate for the new 10-percent price increase. Echeverria also set guidelines for private sector wages because of the failure to reach a compromise between the 10-percent increase offered by management and the 65-percent hike demanded by labor under threat of a general strike.

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[] The guidelines call for a 16- to 23-percent rise, but companies engaged in scheduled annual wage negotiations over the next several months probably will be forced to pay an additional 10-percent increase.

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[] The government also has imposed drastic curbs on government spending, the first sign of Echeverria's willingness to face up to the mounting government deficits of recent years. Government hiring has been frozen and new investment undertakings have been banned.

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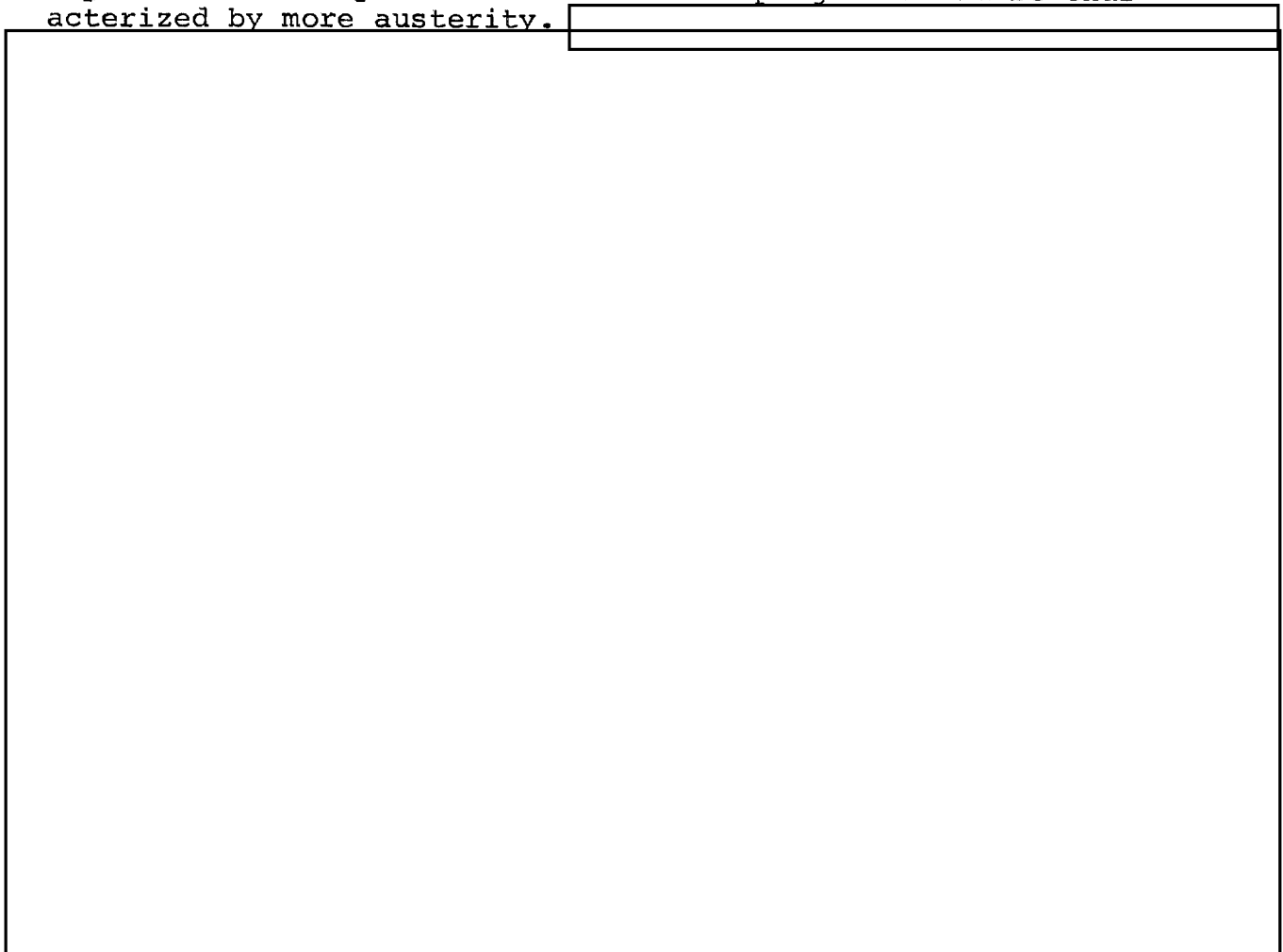
[REDACTED] Although these curbs probably will have little impact on the 1976 deficit, they will set the tone for the 1977 budget and are expected to have a significant psychological impact. The government's borrowing to finance its deficit has been the major source of new money fueling inflation.

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[REDACTED] The stabilization measures doubtless have the approval of president-elect Lopez Portillo, who believes that the restoration of financial stability will be one of his most important duties upon assuming office. While in Washington last week Lopez Portillo implied that his fiscal program would be characterized by more austerity.

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GREECE-TURKEY: Aegean

25X1 [] The Greek and Turkish foreign ministers agreed in New York on Friday to a resumption of negotiations on the Aegean continental shelf and control of Aegean air space. Representatives of the two sides will meet to consider both issues on November 2, probably in Switzerland.

25X1 [] Positive public comments by both sides suggest that the foreign ministers overcame some earlier obstacles to progress. After the meeting, Turkish Foreign Minister Caglayan-gil expressed satisfaction that the Greeks were no longer insisting on discussing only the legal aspects of the dispute and were now willing to discuss other points such as the security requirements of the two countries and the geographic and demographic characteristics of the Aegean.

25X1 [] In Athens, Greek officials said publicly that they were satisfied with the meeting, noting that the Turkish side had expressed understanding. This could mean that Caglayan-gil did not press Greece to withdraw the case it submitted to the International Court of Justice. Caglayan-gil may also have again downplayed Greece's illegal militarization of its easternmost Aegean islands.

25X1 [] The apparent Greek decision to engage in more meaningful negotiations is partly a result of Turkish pressure in the form of the recent seismic exploration in contested Aegean waters. Athens realizes, moreover, that its case does not have the full support of its allies and of the international community.

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Despite the positive atmosphere emerging from the New York meeting, the approaching Turkish election campaign and Athens' concern about alienating the Greek military by too conciliatory a policy appear to preclude any major breakthrough in the coming months.

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